COURSE LEARNING OUTCOMES

At the end of this course the students will be able to

CLO 2 Assess the concept of Redemption of shares, debentures, underwriting of shares and underwriter’s liability.

Preview of last class

01 Introduction Redemption of Preference Sh

How it is Redeemed 02

03 - Sources

- Conditions 04

Topics Covered

UNIT II

Redemption of Preference Shares:

- **Procedure**
- **Capital Redemption Reserve Account**
- **Purpose**

PROCEDURE FOR REDEMPTION LECTURE VIDEO

SOURCE

CLICK

https://www.youtube.com/watch?v=TbR5J2YI89k

- by Mr. Saheb Academy, Educational Channel, IPCC

SOURCE : Animation

CLICK

https://www.youtube.com/watch?v=Has8mppDKz8

Redemption of Preference Shares

Procedure for the redemption of redeemable preference share:

1. It must be authorised by the articles of association
2. The shares will be redeemable only if they are fully paid up
3. The shares may be redeemed out of profits of the company which otherwise would be available for dividends or out of proceeds of new issue of shares made for the purpose of redeem shares.
4. If there is premium payable on redemption it must have provided out of profits or out of shares premium account before the shares are redeemed.
5. When shares are redeemed out of profits a sum equal to nominal amount of shares redeemed is to be transferred out of profits to the capital redemption reserve account

Redemption of Preference Shares

Capital redemption Reserve Account (CRR):

- Capital Redemption Reserve is also created when a company buys it owns shares which reduces its share capital.
- The capital redemption reserve fund is transferred from undistributed profits i.e general reserves, profit or loss account.
- The amount of capital reserve cannot be used for redemption of preference shares.
- If the company issues any fresh shares for redemption purpose, the transferred amount will be the difference between nominal value of shares redeemed and the nominal value of shares issued (i.e. amount transferred to CRR = Nominal value of shares redeemed – Nominal value of shares issued).

Redemption of Preference Shares

Purpose of Capital redemption Reserve Account(CRR):

- When a company **redeem** preference shares, the company is required to create **Capital redemption reserve**(CRR). CRR is created out of the profits.

- When CRR is created some amount of profits are transferred to CRR.

- The main **purpose** is to protect the interest of preference shareholders over **equity** shareholders.

Test Your Knowledge

LINK

https://forms.gle/38dGT5KQknucyfCx8

CLICK

THANK YOU